



Kruse Way in early stages of revival

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The Kruse Way office market is on the cusp of a revival.

Occupancy rates in one of the region's busiest office markets hovered above the 90 percent range before the recession hit. Now, they're slowly climbing upward, to 76.3 percent.

The recession reduced occupancy rates to the low 70s.

Asking rents have risen slightly, to \$25.93 per square foot, another sign of revived activity.

With more than 2.3 million square feet of office space, the Lake Oswego business district contains the most Class A space outside of downtown Portland.

Equally important, occupancy rates at the market's dominant landlord, Shorenstein Realty Services LP, has returned to the high 70s, said [Matt Cole](#), regional leasing manager.

Shorenstein owns 20 of the 36 office buildings that make up the market.

Cole said Shorenstein has completed about 190,000 square feet of new or expanded leases to date in 2011.

"I don't want to pound our chest and say 'We've turned the corner,' but we're encouraged," he said.

Shorenstein started the year at a disadvantage when one of its largest tenants moved to downtown Portland. Northwest Evaluation Association, a nonprofit educational testing service, vacated about 108,000 square feet at Kruse Woods V, leaving the prominent building nearly empty.

Today, Shorenstein has commitments to lease about 85 percent of the space. Privately, brokers say several large tenants are looking at Kruse Way for new office space.

If true, it could dramatically reduce the vacancy rate and even raise the possibility that Shorenstein finally will open [Kruse Oaks III](#). It completed construction of the five-story, 108,000-square-foot building in 2009 but has never opened it.

Cole said there are no tenants yet signed; Shorenstein won't activate the building without at least one full-floor tenant.

DeLap LLP, a Kruse Way accounting firm, offers a telling example of the changing market. It will move from dated offices in the park's east side to larger offices in the former Northwest Evaluation Association space on Dec. 5.

DeLap, an 80-person firm, occupied its 17,000-square-foot suite at the east end of Kruse Way for 20 years.

Managing Partner [David DeLap](#) said the firm needed an office environment that reflects changing times, which include digital storage rather than physical.

"A desk and three monitors and I'm good to go," he said.

DeLap wanted to remain on Kruse Way because most employees live in Sherwood, Tigard, Tualatin or Lake Oswego. But it also wanted the downtown Portland-like atmosphere of nearby restaurants and coffee shops.

Its new space is 21,000 square feet, an increase of 4,000 that will allow it to grow. It shares a building with Elephants Delicatessen and is across the street from [Starbucks](#), hotels and other services.

Cole acknowledged that leasing is stronger at the west end of Kruse Way because tenants like being closer to retail services.

To woo tenants to the east end, Shorenstein is contemplating several strategies, including recruiting retailers to its own buildings and working with a developer to promote new projects in the area.

[Gordon King](#) and [Brad Christiansen](#) of Colliers represented DeLap in its negotiations with Shorenstein. King said the deal and others add up to renewed interest in suburban office parks. Smart owners are adding urban touches, such as retail services tenants can reach on foot.

"You have this subtle urbanization of a traditional suburban office park. It's an interesting trend," he said. "The reset button has really been set here."

Fast Facts

- CB Richard Ellis and Jones Lang LaSalle Brokerage Inc. (formerly [Pacific Real Estate Partners](#)) share leasing duties for Shorenstein's Kruse Way portfolio.
- Kruse Way was once home to a high concentration of financial service companies, mortgage brokers and home builders that were hit hard by the recession. When business plummeted, many shrank in size or closed altogether

At a Glance

The Kruse Way office market consists of 36 buildings, 20 owned by Shorenstein Realty Services LP. The overall vacancy rate is 23.7 percent. The largest vacancies are at:

- [Kruse Oaks III](#), 5500 Meadows Road, aka "the new building," the entire 108,454-square-foot building is available.
- Kruse Woods V, 5885 Meadows Road, approximately 98,800 square feet available.
- 4800 Meadows Road, 19,100 square feet available.

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